

# CHAPTER 1

## THEORY QUESTIONS ON REVISED SCHEDULE VI

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The Ministry of Corporate Affairs has notified the revised Schedule VI on 28 February, 2011 *vide* Notification No. S.O. 447(E) (as amended by Notification No. SO 653(E) dated 30 March 2011). The revised Schedule VI will replace the existing Schedule VI in respect of Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 01-04-2011.

### Expected Questions for CA Students IPCC and Final

#### 1. What was the need for revised Schedule VI?

The existing Schedule VI to the *Companies Act, 1956* (herein after called as old Schedule VI) has been in place for almost five decades without any major change and has not been able to keep pace with the changes taking place in the international arena. The revised Schedule VI is an attempt to bridge that gap.

#### 2. What is the effective date of revised Schedule VI?

As per Notification No. 653(E) dated 30 March 2011, the revised Schedule VI shall come into force for the Balance Sheet and Profit and Loss Account to be prepared for the financial year commencing on or after 01-04-2011.

#### 3. In case of a conflict between the requirements of an accounting standard and revised Schedule VI, which one will prevail?

Where compliance with the requirements of the Act including Accounting Standards as applicable to the companies require any change in treatment or disclosure including addition, amendment, substitution or deletion in the head/sub-head or any changes inter se, in the financial statements or statements forming part thereof, the same shall be made and

the requirements of the Schedule VI shall stand modified accordingly. Thus, in other words, the requirements of accounting standards notified under the *Companies (Accounting Standards) Rules, 2006* will prevail in case of a conflict with the requirements of revised Schedule VI.

#### **4. Can the amount appearing in the financial statements be rounded off?**

Depending upon the turnover of the company, the figures appearing in the Financial Statements may be rounded off as below:

| Turnover                           | Rounding off                                                                |
|------------------------------------|-----------------------------------------------------------------------------|
| Less than one hundred crore rupees | To the nearest hundreds, thousands, lakhs or millions, or decimals thereof. |
| One hundred crore rupees or more   | To the nearest, lakhs, millions or crores, or decimals thereof.             |

Once a unit of measurement is used, it should be used uniformly in the Financial Statements.

#### **5. What is the requirement of revised Schedule VI regarding presentation of comparative amounts?**

The revised Schedule VI clearly provides that except in the case of the first Financial Statements laid before the company (after its incorporation) the corresponding amounts (comparatives) for the immediately preceding the reporting period for all items shown in the Financial Statements including notes shall also be given. A question, thus, arises that whether at the time of first time application of revised Schedule VI, i.e. while drawing up the financial statements for 2011/12, an entity would need to give the comparative for 2010/11 as per the revised Schedule VI. Our view is that the comparatives for 2010/11 will also be based on the revised Schedule VI.

#### **6. Is schedule VI applicable on Cash Flow?**

The revised Schedule VI prescribes the format for information to be presented on the face of Balance Sheet and Statement of Profit and Loss. There is no format prescribed for cash flow statement.

**Form of Balance Sheet**

Name of the Company.....

Balance Sheet as at .....

(Rupees in.....)

| Particulars                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Note No. | Figures as at the end of current reporting period | Figures as at the end of the previous reporting period |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------------------------------------|--------------------------------------------------------|
| 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 2        | 3                                                 | 4                                                      |
| <b>I. Equity and Liabilities</b><br><b>(1) Shareholders' funds</b><br>(a) Share capital<br>(b) Reserves and surplus<br>(c) Money received against share warrants<br><b>(2) Share application money pending allotment</b><br><b>(3) Non-current liabilities</b><br>(a) Long-term borrowings<br>(b) Deferred tax liabilities (Net)<br>(c) Other Long-term liabilities<br>(d) Long-term provisions<br><b>(4) Current liabilities</b><br>(a) Short-term borrowings<br>(b) Trade payables<br>(c) Other current liabilities<br>(d) Short-term provisions<br><b>Total</b> |          |                                                   |                                                        |
| <b>II. Assets</b><br><b>(1) Non-current assets</b><br>(a) Fixed assets<br>(i) Tangible assets<br>(ii) Intangible assets<br>(iii) Capital work-in-progress<br>(iv) Intangible assets under development<br>(b) Non-current investments<br>(c) Deferred tax assets (net)<br>(d) Long-term loans and advances<br>(e) Other non-current assets                                                                                                                                                                                                                          |          |                                                   |                                                        |

| Particulars                                                                                                                                                                                                        | Note No. | Figures as at the end of current reporting period | Figures as at the end of the previous reporting period |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------------------------------------|--------------------------------------------------------|
| 1                                                                                                                                                                                                                  | 2        | 3                                                 | 4                                                      |
| <b>(2) Current assets</b><br>(a) Current investments<br>(b) Inventories<br>(c) Trade receivables<br>(d) Cash and cash equivalents<br>(e) Short-term loans and advances<br>(f) Other current assets<br><b>Total</b> |          |                                                   |                                                        |

**7. What is the structure of the Statement of Profit and Loss under the revised Schedule VI?**

The key points regarding Statement of Profit and Loss are as under:

- The format of Statement of Profit and Loss is prescribed.
- Only a vertical form of Statement of Profit and Loss is permitted.
- Classification of expenses by nature needs to be given.
- Profit or loss from discontinuing operations needs to be shown separately on the face of the Statement of Profit and Loss. Earlier this requirement was based on accounting standard and not Schedule VI.
- Quantitative disclosures relating to turnover, raw materials, purchases, installed capacity, actual production, details of managerial remuneration are to be dispensed with.

The face of the **Statement of Profit and Loss** would look like as follows:

| S. No. | Particulars             | Note No. | Figures as at the end of current reporting period | Figures as at the end of the previous reporting period |
|--------|-------------------------|----------|---------------------------------------------------|--------------------------------------------------------|
| I.     | Revenue from operations |          | xxx                                               | xxx                                                    |
| II.    | Other income            |          | xxx                                               | xxx                                                    |
| III.   | Total Revenue (I + II)  |          | xxx                                               | xxx                                                    |

| S. No. | Particulars                                                                                                                                                                           | Note No. | Figures as at the end of current reporting period |            | Figures as at the end of the previous reporting period |            |
|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------------------------------------|------------|--------------------------------------------------------|------------|
| IV.    | Expenses:<br>Cost of materials consumed<br>Purchases of Stock-in-Trade                                                                                                                |          |                                                   | xxx<br>xxx |                                                        | xxx<br>xxx |
|        | Changes in inventories of finished goods Work-in-progress and Stock-in-Trade<br>Employee benefits expense<br>Finance costs<br>Depreciation and amortisation expense<br>Other expenses |          |                                                   | xxx        |                                                        | xxx        |
|        | Total expenses                                                                                                                                                                        |          |                                                   | xxx        |                                                        | xxx        |
| V.     | Profit before exceptional and extraordinary items and tax (III – IV)                                                                                                                  |          |                                                   | xxx        |                                                        | xxx        |
| VI.    | Exceptional items                                                                                                                                                                     |          |                                                   | xxx        |                                                        | xxx        |
| VII.   | Profit before extraordinary items and tax (V – VI)                                                                                                                                    |          |                                                   | xxx        |                                                        | xxx        |
| VIII.  | Extraordinary Items                                                                                                                                                                   |          |                                                   | xxx        |                                                        | xxx        |
| IX.    | Profit before tax (VII – VIII)                                                                                                                                                        |          |                                                   | xxx        |                                                        | xxx        |
| X.     | Tax expenses:<br>(1) Current tax<br>(2) Deferred tax                                                                                                                                  |          | xxx<br><u>xxx</u>                                 | xxx        | xxx<br><u>xxx</u>                                      | xxx        |
| XI.    | Profit/(Loss) for the period from continuing operations (VII – VIII)*                                                                                                                 |          |                                                   | xxx        |                                                        | xxx        |
| XII.   | Profit/(Loss) from discontinuing operations                                                                                                                                           |          |                                                   | xxx        |                                                        | xxx        |
| XIII.  | Tax expense of discontinuing operations                                                                                                                                               |          |                                                   | xxx        |                                                        | xxx        |

| S. No. | Particulars                                                          | Note No. | Figures as at the end of current reporting period |     | Figures as at the end of the previous reporting period |     |
|--------|----------------------------------------------------------------------|----------|---------------------------------------------------|-----|--------------------------------------------------------|-----|
| XIV.   | Profit/(Loss) from Discontinuing operations (after tax) (XII – XIII) |          |                                                   | xxx |                                                        | xxx |
| XV.    | Profit (Loss) for the period (XI + XIV)                              |          |                                                   | xxx |                                                        | xxx |
| XVI.   | Earnings per equity share:                                           |          |                                                   |     |                                                        |     |
|        | (1) Basic                                                            |          |                                                   | xxx |                                                        | xxx |
|        | (2) Diluted                                                          |          |                                                   | xxx |                                                        | xxx |

\* This should be read as IX – X – XIV - authors

### 8. Whether the additional information in respect of Balance Sheet and the Statement of Profit and Loss is to be presented in the form of Schedules or notes?

Unlike old Schedule VI, there is no concept of Schedules in the revised Schedule VI. The supplementary information in respect of Balance Sheet and the Statement of Profit and Loss (and any other information that may be required to be disclosed) is to be given in the form of notes. However, in our view, it is only a presentation issues and is not going to have any other implication. One can present the information in the same format in the notes.

## Additional Expected Questions for CA Final Students

### 9. Is the revised Schedule VI, based on Ind AS converged with IFRS?

Ind AS were notified on 25-02-2011 and the revised Schedule VI was notified on 28-02-2011. This gave an impression that the revised Schedule VI has been brought in to bring the presentation of financial statements in line with the Ind AS. However, given the fact that Ind AS are not yet effective, one cannot say that revised Schedule VI is based on Ind AS. MCA website also clarified this point by saying that the revised Schedule VI has nothing to do with the Ind AS converged with IFRS. However, at the same time, it is also true that there are some terms (eg, business combinations, controlled special purpose entity, etc) that have been used in revised Schedule VI, are based on Ind AS.

**10. Whether the revised Schedule VI will be applicable to consolidated financial statements as well?**

The revised Schedule VI is silent on the applicability to the consolidated financial Statements. However, given the fact that under AS-21 on “Consolidated Financial Statements” requires that the consolidated financial statements are prepared in the format as adopted for the parent’s standalone financial statements (to the extent possible), it would be prudent to say that the revised Schedule VI will be applicable to the consolidated financial statements as well.

**11. What are important changes of Format of Balance Sheet under Revised Schedule VI?**

- Only a vertical form of Balance Sheet is permitted.
- The amount of Shareholders’ funds is required to be shown after deduction of debit balance of Profit and Loss Account. As a result, shareholders’ funds figure can be negative.
- Separate head for “Miscellaneous Expenditure to the extent not written off or adjusted” has been discontinued.
- Current and non-current classification of assets and liabilities required on the lines of Ind AS and IFRS.
- Concept of operating cycle has been introduced in the Revised Schedule VI.
- Separate head has been prescribed for:
  - (a) money received against share warrants,
  - (d) intangible assets,
  - (c) intangible assets under development,
  - (d) cash and cash equivalents.

**12. What are the important changes in of Format of Statement of Profit and Loss under Revised Schedule VI?**

- The format of Statement of Profit and Loss has been prescribed.
- Only a vertical format of the Statement of Profit and Loss is permitted.
- Classification of expenses by nature needs to be given.

- Profit or loss from discontinuing operations needs to be shown separately on the face of the Statement of Profit and Loss. Earlier this requirement was based on accounting standard and not Schedule VI.
- Quantitative disclosures relating to turnover, raw materials, purchases, installed capacity, actual production, details of managerial remuneration dispensed with.



## CHAPTER 2

# PRESENTATION OF BALANCE SHEET UNDER REVISED SCHEDULE VI

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### Requirements for Various Items of Balance Sheet

#### Shareholders' Funds

A company is required to disclose the following in the notes to accounts:

#### A. Share Capital

It is required to disclose the following for each class of share capital (separate treatment has to be given to different classes of preference shares):

- (a) the number and amount of shares authorised;
- (b) the number of shares issued, subscribed and fully paid, and subscribed but not fully paid;
- (c) par value per share;
- (d) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period;
- (e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital;
- (f) shares in respect of each class in the company held by its holding company or its ultimate holding company including shares held by or by subsidiaries or associates of the holding company or the ultimate holding company in aggregate;
- (g) shares in the company held by each shareholder holding more than 5 per cent shares specifying the number of shares held;

- (h) shares reserved for issue under options and contracts/ commitments for the sale of shares/disinvestment, including the terms and amounts;
- (i) Calls unpaid (showing aggregate value of calls unpaid by directors and officers);
- (j) Forfeited shares (amount originally paid up).

## **B. Reserves and Surplus**

Reserves and Surplus shall be classified as:

- (a) Capital Reserve
- (b) Capital Redemption Reserve
- (c) Securities Premium Reserve
- (d) Debenture Redemption Reserve
- (e) Revaluation Reserve
- (f) Share Options Outstanding Account
- (g) Other Reserves – (specify the nature and purpose of each reserve and the amount in respect thereof)
- (h) Surplus, ie balance in the Statement of Profit & Loss disclosing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves, etc

It is also required to disclose the additions and deductions since last Balance Sheet under each of the specified heads.

In this regard, following should be noted:

1. A reserve specifically represented by earmarked investments shall be termed as a “fund”.
2. Debit balance of statement of profit and loss shall be shown as a negative figure under the head “Surplus”. Similarly, the balance of “Reserves and Surplus”, after adjusting negative balance of surplus, if any, shall be shown under the head “Reserves and Surplus” even if the resulting figure is in the negative.

**Q 1. X Ltd has a share capital of `100 crore, share premium of `50 crore and there is a debit balance of `200 crore in the profit and loss account. How should it present its shareholders' funds?**

**Ans.** It should deduct the debit balance of profit and loss account from reserves and surplus. Thus, the reserves and surplus will be a negative of `150 crore and shareholders' funds would be a negative of `50 crore.

### **C. Money Received against Share Warrants**

Revised Schedule VI requires a separate disclosure of Money received against share warrants. This requirement is not there in the old Schedule VI.

## **Share Application Money Pending Allotment**

Revised Schedule VI requires a separate disclosure in respect of share application money pending allotment. It may be noted here that:

- Share application money pending allotment is not to be presented within Shareholders' funds. The existing practice has been to disclose this as a separate line item within shareholders' funds.
- Only the amount which is not due for refund should be shown under Share application money pending allotment.
- The amount which is due for refund should be shown under "Other Current Liabilities" along with interest accrued thereon.

## Non-current Liabilities

The revised Schedule VI requires a current and non-current classification of assets and liabilities. It provides the criteria for classification of liabilities into current and non-current and prescribes that:

A liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

**Note:** For this purpose, operating cycle means the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have duration of 12 months

Non-current liabilities need to be presented within the following broad heads on the face of Balance Sheet:

- (a) Long-term borrowings
- (b) Deferred tax liabilities (Net)
- (c) Other Long-term liabilities
- (d) Long-term provisions

### Long-term Borrowings

Long-term borrowings should be classified as:

- (a) Bonds/debentures

(b) Term loans:

- from banks
- from other parties

(c) Deferred payment liabilities

(d) Deposits

(e) Loans and advances from related parties

(f) Long-term maturities of finance lease obligations

(g) Other loans and advances (specify nature)

The following important points should be kept in mind with respect to Long-term borrowings:

1. Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
2. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
3. Bonds/debentures (along with the rate of interest and particulars of redemption or conversion, as the case may be) shall be stated in descending order of maturity or conversion, starting from farthest redemption or conversion date, as the case may be. Where bonds/ debentures are redeemable by instalments, the date of maturity for this purpose must be reckoned as the date on which the first installment becomes due.
4. Particulars of any redeemed bonds/ debentures which the company has power to reissue shall be disclosed.
5. Terms of repayment of term loans and other loans shall be stated.
6. Period and amount of continuing default, as on the Balance Sheet date in repayment of loans and interest, shall be specified separately in each case.

**Q 2. Y Ltd has FCCBs worth `100 crore which are due to mature on 31 December 2012. While preparing the financial statements for the year ending 31 March 2012, it is expected that the FCCB holders will not exercise the option of converting the same to equity shares. How should the company classify the**

**FCCBs on 31 March 2012? Will your answer be different if the company expects that FCCB holders will convert their holdings into equity shares of Y Ltd?**

**Ans.** The revised Schedule VI provides that:

“A liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the company’s normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.”

In the present situation, Y Ltd does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The position is same even when the FCCB holders are expected to convert their holdings into equity shares of Y Ltd. Expectations cannot amount an unconditional right. Thus, in both the situations Y Ltd should classify the FCCBs as current liabilities on 31 March 2012.

## **Deferred Tax Liabilities (Net)**

The revised Schedule VI requires that deferred tax assets and liabilities be presented as non-current. The old Schedule VI is silent on this aspect.

## **Other Long-term Liabilities**

Other long-term liabilities may be classified as:

- (a) Trade payables
- (b) Others

**Trade payables:** The non-current portion of trade payables will be disclosed under this head. A payable shall be classified as a “trade payable” if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

## Long-term Provisions

The amounts should be classified as:

- Provision for employee benefits
- Others (specify nature)

## Provision for Employee Benefits

In respect of provision for employee benefits, it may be noted here that only the long term provision is to be disclosed under this head. Amount which is payable in a short period of time (ie, the current portion) is to be disclosed under “Short-term Provision” under the head “Current Liabilities”.

**Q 3. P Ltd provides certain long-term benefits to its employees. Is it required to classify the same into current and non-current?**

**Ans.** According to the revised Schedule VI, a liability is classified as current if a company does not have an unconditional right as on the balance sheet date to defer its settlement for 12 months after the reporting date. P Ltd will need to apply this criteria to its specific facts and circumstances and decide an appropriate classification of its employee benefit obligations.

One can take following examples to illustrate the treatment of long-term employee benefit obligations:

- (a) **Accumulated leave:** In case of accumulated leave outstanding as on the reporting date, the employees have already earned the right to avail the leave and they are normally entitled unconditionally to avail the leave at any time during the year. Hence, it is disclosed as a current liability even if it is measured as other long-term employee benefit under AS-15. In case, the employee does not have the unconditional right to avail the leave, the company may need to classify the liability between current and non-current.
- (b) **Funded post-employment benefit obligations:** amount due for payment to the fund within 12 months should be treated as current liability. A company will have settlement obligation at the balance sheet date or within 12 months for employees such as those who have already resigned or are expected to resign or are due for retirement within the next 12 months from the balance sheet date. Thus, the amount of obligation attributable to these employees is a current liability. The remaining amount attributable to other employees, who are



likely to continue in the services for the next 12 months, should be classified as non-current liability.

## **Current Liabilities**

A liability shall be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be settled in the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is due to be settled within twelve months after the reporting date; or
- (d) the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

Current liabilities should be presented within the following broad heads on the face of Balance Sheet:

- (a) Short-term borrowings
- (b) Trade payables
- (c) Other current liabilities
- (d) Short-term provisions

Requirements relating to the above items have been discussed below.

### **Short-term Borrowings**

Short-term borrowings shall be classified as:

- (a) Loans repayable on demand
  - from banks
  - from other parties
- (b) Loans and advances from related parties
- (c) Deposits
- (d) Other loans and advances (specify nature)

The following important points should be kept in mind with respect to short-term borrowings:

1. Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified separately in each case.
2. Where loans have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.
3. Period and amount of default as on the Balance Sheet date in repayment of loans and interest shall be specified separately in each case.

## **Trade Payables**

The current portion of trade payables will be disclosed under this head. As discussed above, a payable shall be classified as a “trade payable” if it is in respect of the amount due on account of goods purchased or services received in the normal course of business.

## **Other Current Liabilities**

The amounts shall be classified as:

- (a) Current maturities of long-term debt
- (b) Current maturities of finance lease obligations
- (c) Interest accrued but not due on borrowings
- (d) Interest accrued and due on borrowings
- (e) Income received in advance
- (f) Unpaid dividends
- (g) Application money received for allotment of securities and due for refund and interest accrued thereon (discussed below)
- (h) Unpaid matured deposits and interest accrued thereon
- (i) Unpaid matured debentures and interest accrued thereon
- (j) Other payables (specify nature)

The following important points should be kept in mind regarding share application money received for allotment of securities:

With respect to “Application money received for allotment of securities and due for refund and interest accrued thereon”, the following points should also be noted:

1. Share application money includes advances towards allotment of share capital.
2. The terms and conditions including the number of shares proposed to be issued, the amount of premium, if any, and the period before which shares shall be allotted shall be disclosed.
3. It shall also be disclosed whether the company has sufficient authorised capital to cover the share capital amount resulting from allotment of shares out of such share application money.
4. The period for which the share application money has been pending beyond the period for allotment as mentioned in the document inviting application for shares along with the reason for such share application money being pending shall be disclosed.
5. Share application money not exceeding the issued capital and to the extent not refundable shall be shown under the head Equity and share application money to the extent refundable, ie, the amount in excess of subscription or in case the requirements of minimum subscription are not met, shall be separately shown under “Other current liabilities”.

**Q 4. X Ltd is in the business of making specialised construction equipments for its customers. It normally takes two years to complete the equipment. It, however, receives 25% payment upfront. How should it classify the advance payment received?**

**Ans.** The advance payment received should be classified as a current liability.

## **Short-term Provisions**

The amounts shall be classified as:

- (a) Provision for employee benefits
- (b) Others (specify nature)

## **Non Current Assets Tangible Assets**

Revised Schedule VI requires that tangible assets are classified as under:

- (a) Land
- (b) Buildings
- (c) Plant and Equipment
- (d) Furniture and Fixtures
- (e) Vehicles
- (f) Office equipment
- (g) Others (specify nature)

The following important points should be kept in mind with respect to tangible assets:

1. Assets under lease shall be separately specified under each class of asset.
2. A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related depreciation and impairment losses/reversals shall be disclosed separately.
3. Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every Balance Sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years subsequent to the date of such reduction or increase.

**Q 5. X Ltd has an immovable property and expects that it will be sold within 12 months from the reporting date. How should it classify its property, assuming that it is an investment property?**

**Ans.** An investment property is an investment in land or buildings that are not intended to be occupied substantially for use by, or in the operations of, the investing enterprise. AS-13 requires that an enterprise holding investment properties should account for the same as long-term investments.

Thus, despite the fact that X Ltd intends to sell the property within 12 months from the reporting date, it should classify the same as non-current.

## **Intangible Assets**

Revised Schedule VI requires that intangible assets are classified as under:

- (a) Goodwill
- (b) Brands/trademarks
- (c) Computer software
- (d) Mastheads and publishing titles
- (e) Mining rights
- (f) Copyrights, and patents and other intellectual property rights, services and operating rights
- (g) Recipes, formulae, models, designs and prototypes
- (h) Licenses and franchise
- (i) Others (specify nature)

The following important points should be kept in mind with respect to intangible assets:

1. A reconciliation of the gross and net carrying amounts of each class of assets at the beginning and end of the reporting period showing additions, disposals, acquisitions through business combinations and other adjustments and the related amortisation and impairment losses/reversals shall be disclosed separately.
2. Where sums have been written off on a reduction of capital or revaluation of assets or where sums have been added on revaluation of assets, every Balance Sheet subsequent to date of such write-off, or addition shall show the reduced or increased figures as applicable and shall by way of a note also show the amount of the reduction or increase as applicable together with the date thereof for the first five years, subsequent to the date of such reduction or increase.

## **Non-current Investments**

Non-current investments shall be classified as trade investments and other investments and further classified as:

- (a) Investment property
- (b) Investments in Equity Instruments

- (c) Investments in preference shares
- (d) Investments in Government or trust securities
- (e) Investments in debentures or bonds
- (f) Investments in Mutual Funds
- (g) Investments in partnership firms
- (h) Other non-current investments (specify nature)

The following important points should be kept in mind with respect to Non-current investments:

1. Under each classification, details should be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities) in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) should be given.
2. Investments carried at other than at cost should be separately stated specifying the basis for valuation thereof.
3. The following should also be disclosed:
  - (a) Aggregate amount of quoted investments and market value thereof
  - (b) Aggregate amount of unquoted investments
  - (c) Aggregate provision for diminution in value of investments

## **Long-term Loans and Advances**

Long-term loans and advances should be classified as under:

- (a) Capital Advances
- (b) Security Deposits
- (c) Loans and advances to related parties (giving details thereof)
- (d) Other loans and advances (specify nature)

The above shall also be separately sub-classified as:

- (a) Secured, considered good



- (b) Unsecured, considered good
- (c) Doubtful

The following important points should be kept in mind with respect to Long-term loans and advances:

1. Allowance for bad and doubtful loans and advances should be disclosed under the relevant heads separately.
2. Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other persons or amounts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

## **Other Non-current Assets**

Other non-current assets should be classified as:

- (i) Long-term Trade Receivables (including trade receivables on deferred credit terms)
- (ii) Others (specify nature)

The following important points should be kept in mind with respect to other non-current assets:

1. A receivable shall be classified as a “trade receivable” if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.
2. Long-term Trade Receivables, shall be sub-classified as:
  - (a) Secured; considered good
  - (b) Unsecured; considered good
  - (c) Doubtful
3. Allowance for bad and doubtful debts shall be disclosed under the relevant heads separately.
4. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is a partner or a director or a member should be separately stated.

## **Current Assets**

Under the revised Schedule VI, current assets need to be presented under the following heads on the face of Balance Sheet:

- (a) Current investments
- (b) Inventories
- (c) Trade receivables
- (d) Cash and cash equivalents
- (e) Short-term loans and advances
- (f) Other current assets

An asset should be classified as current when it satisfies any of the following criteria:

- (a) it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle;
- (b) it is held primarily for the purpose of being traded;
- (c) it is expected to be realised within twelve months after the reporting date; or
- (d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

As already discussed, an operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

**Q 6. Inventory or trade receivables of X Ltd are normally realised in 16 months. How will X Ltd classify such inventory/trade receivables as current?**

**Ans:** These should be classified as current.

**Q 7. B Ltd produces Ships. The length of time between first purchasing raw materials to make the ships and the date the company completes the production & delivery is 9 months. The company receives payment for the ships 7 months after the delivery.**

**(a) What is the length of operating cycle?**

**(b) How should it treat its inventory & debtors?**

**Ans.** (a) The length of the operating cycle will be 16 months.

(b) Both the inventory as well as debtors should be classified as current.

**Q 8**    **X Ltd provides you the following information:**

**Raw material stock holding period: 3 months**

**Work-in-progress holding period: 1 month**

**Finished goods holding period: 5 months**

**Debtors collection period: 5 months**

**You are requested to compute the operating cycle of X Ltd.**

**Ans.** The operating cycle of X Ltd will be computed as under:

Raw material stock holding period + Work-in-progress holding period + Finished goods holding period + Debtors collection period  
= 3 + 1 + 5 + 5 = 14 months

**Q9**    **In example 8.3, what would happen if the trade payables of the Company are paid in 12.5 months—whether these should be classified as current or non-current?**

**Ans.** Since the operating cycle of X Ltd is 14 months, trade payables expected to be paid in 12.5 months should be treated as a current liability.

**Q 10.** **X Ltd is engaged in diversified operations. Can it have different operating cycles for its various lines of business?**

**Ans.** An operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. It is natural to expect that this time period will be different for various lines of business. There is no bar in the revised Schedule VI for a company to have multiple operating cycles. Thus, X Ltd can have different operating cycles for its various lines of business. In such a case, it should classify the assets and liabilities of the respective business into current and non-current, depending on the length of the respective business cycles.

**Q 11.** **Y Ltd is not able to identify its normal operating cycle. How should it classify its assets and liabilities into current and non-current?**

**Ans.** If a company is not able to identify its normal operating cycle, it is assumed to be of 12 months. Thus, Y Ltd should use a criteria of 12 months for classifying its assets and liabilities into current and non-current.

## **Current Investments**

Current investments should be classified as:

- (a) Investments in Equity Instruments
- (b) Investment in Preference Shares
- (c) Investments in government or trust securities
- (d) Investments in debentures or bonds
- (e) Investments in Mutual Funds
- (f) Investments in partnership firms
- (g) Other investments (specify nature)

The following important points should be kept in mind with respect to Current Assets:

1. Under each classification, details should be given of names of the bodies corporate (indicating separately whether such bodies are (i) subsidiaries, (ii) associates, (iii) joint ventures, or (iv) controlled special purpose entities) in whom investments have been made and the nature and extent of the investment so made in each such body corporate (showing separately investments which are partly paid). In regard to investments in the capital of partnership firms, the names of the firms (with the names of all their partners, total capital and the shares of each partner) shall be given.
2. The following should also be disclosed:
  - (a) The basis of valuation of individual investments
  - (b) Aggregate amount of quoted investments and market value thereof
  - (c) Aggregate amount of unquoted investments
  - (d) Aggregate provision made for diminution in value of investments

## **Inventories**

Inventories should be classified as:

- (a) Raw materials
- (b) Work-in-progress
- (c) Finished goods
- (d) Stock-in-trade (in respect of goods acquired for trading)
- (e) Stores and spares
- (f) Loose tools
- (g) Others (specify nature)

Goods-in-transit shall be disclosed under the relevant sub-head of inventories. Further, the mode of valuation should also be stated.

By virtue of AS-1, an enterprise also need to disclose any change in the accounting policies, adopted in measuring inventories, which has a material effect in the current period or later period(s) along with its impact on the items of financial statements. Where such impact is not ascertainable, whether wholly or in part, the fact should be disclosed.

## **Trade Receivables**

Trade receivables that are classified as current should be separately disclosed on the face of Balance Sheet. These should be further sub-classified as:

- (a) Secured; considered good
- (b) Unsecured; considered good
- (c) Doubtful

Besides the above:

1. Aggregate amount of Trade Receivables outstanding for a period exceeding six months from the date they are due for payment should be separately stated.
2. Allowance for bad and doubtful debts should be disclosed under the relevant heads separately.
3. Debts due by directors or other officers of the company or any of them either severally or jointly with any other person or debts due by firms or private companies respectively in which any director is

## **Cash and Cash Equivalents**

Cash and cash equivalents should be classified as:

- (a) Balances with banks
- (b) Cheques, drafts on hand
- (c) Cash on hand
- (d) Others (specify nature)

## **Short-term Loans and Advances**

Short-term loans and advances should be classified as:

- (a) Loans and advances to related parties (giving details thereof)
- (b) Others (specify nature)

The above may also be sub-classified as:

- (a) Secured; considered good
- (b) Unsecured; considered good
- (c) Doubtful

The following important points should be kept in mind in case of Trade receivables:

1. Allowance for bad and doubtful loans and advances shall be disclosed under the relevant heads separately.
2. Loans and advances due by directors or other officers of the company or any of them either severally or jointly with any other person or amounts due by firms or private companies respectively in which any director is a partner or a director or a member shall be separately stated.

## **Other Current Assets**

This is a residual heading, which incorporates current assets that do not fit into any other asset categories. This head may contain items such as:

- Interest accrued on investments
- Unbilled revenue

- Recoverable from government agencies

## **Contingent Liabilities and Commitments (to the extent not provided for)**

Schedule VI requires Contingent liabilities to be classified as:

- (a) Claims against the company not acknowledged as debt
- (b) Guarantees
- (c) Other money for which the company is contingently liable

Commitments should be classified as:

- (a) Estimated amount of contracts remaining to be executed on capital account and not provided for
- (b) Uncalled liability on shares and other investments partly paid
- (c) Other commitments (specify nature)

### **Other Significant Disclosures**

1. The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share should be disclosed separately.
2. Arrears of fixed cumulative dividends on preference shares should also be disclosed separately.
3. Where in respect of an issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the Balance Sheet date, it should be disclosed by way of a note how such unutilised amounts have been used or invested.
4. If, in the opinion of the Board, any of the assets other than fixed assets and non-current investments do not have a value on realisation in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion, should be stated.

Surplus and presented on the face of the Balance Sheet.

# CHAPTER 3

## **PRESENTATION OF STATEMENT OF PROFIT AND LOSS UNDER REVISED SCHEDULE VI**

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### **Requirements Relating to Income and Expenses Items**

#### **Requirements for Various Items of Statement of Profit and Loss**

This has been divided into requirements relating to income and expenses:

- I Requirements relating to income
- II Requirements relating to expenses

#### **Requirements relating to Income**

##### ***Revenue***

These requirements have been given for four types of entities:

- (a) For companies other than finance companies;
- (b) For finance companies;
- (c) For companies rendering or supplying services; and
- (d) For other companies (not covered in a, b and c above).

##### ***For Companies other than Finance Companies***

In respect of a company other than a finance company revenue from operations should disclose separately in the notes revenue from:

- (a) sale of products;



- (b) sale of services;
- (c) other operating revenues;

*Less*

- (d) Excise duty.

For Finance Companies

In respect of a finance company, revenue from operations should disclose revenue from

- (a) Interest; and
- (b) Other financial services.

### ***Other Income***

Other income should be classified as:

- (a) Interest Income (in case of a company other than a finance company);
- (b) Dividend Income;
- (c) Net gain/loss on sale of investments;
- (d) Other non-operating income (net of expenses directly attributable to such income).

It may be noted here that the bifurcation between income from trade investments and other investments need not be given. Further, the requirement to disclose TDS in case of gross presentation of income from interest and investments has been dispensed with. Also, other non-operating income is to be shown on a net basis after deducting the expenses directly attributable to such income.

## **Requirements relating to Expenses**

### ***Raw Material and Work-in-progress***

#### ***Raw Material***

The revised Schedule VI requires the following disclosures in respect of raw material consumed and goods purchased:

| S. No. | Type of Companies       | Disclosure requirements                                                                                        |
|--------|-------------------------|----------------------------------------------------------------------------------------------------------------|
| 1.     | Manufacturing Companies | (1) Raw materials to be disclosed under broad heads.<br>(2) Goods purchased to be disclosed under broad heads. |

| S. No. | Type of Companies     | Disclosure requirements                                                                                                                                                                                                                                                                                                      |
|--------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.     | Trading Companies     | Purchases in respect of goods traded in by the company to be disclosed under broad heads.                                                                                                                                                                                                                                    |
| 3.     | Diversified Companies | In the case of a company, which falls under more than one of the categories (ie, manufacturing, trading and/or service companies), it will be sufficient compliance with the requirements herein if purchases, sales and consumption of raw material and the gross income from services rendered is shown under broad heads. |

### *Work-in-progress*

In the case of all concerns having works-in-progress, works-in-progress have to be disclosed under broad heads.

### **Finance Costs**

Finance costs should be classified as:

- (a) Interest expense
- (b) Other borrowing costs
- (c) Applicable net gain/loss on foreign currency transactions and translation

### **Employee Benefits Expense**

The following amounts in respect of employee benefit expenses should be shown separately:

- (i) salaries and wages
- (ii) contribution to provident and other funds
- (iii) expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP)
- (iv) staff welfare expenses

### **Depreciation and Amortisation Expense**

It is required to show the following amount separately:

- Depreciation

- Amortisation
- Impairment (impairment amount would need to be shown by virtue of AS-28 on “Impairment of Assets”)

For depreciation, one would need to take into account, the requirements of Schedule XIV of the *Companies Act, 1956* and AS-6 on “Depreciation Accounting”.

### ***Payment to Auditors***

A company shall disclose, by way of notes, additional information regarding aggregate expenditure on payments to the auditor as:

- (a) Auditor
- (b) For taxation matters
- (c) For company law matters
- (d) For management services
- (e) For other services
- (f) For reimbursement of expenses

### ***Other Expenses***

Expenditure incurred on each of the following items forming part of “Other expenses” as shown on the face of statement of profit or loss should be separately disclosed in the notes to the accounts for each item:

- (a) Consumption of stores and spare parts
- (b) Power and fuel
- (c) Rent
- (d) Repairs to buildings
- (e) Repairs to machinery
- (g) Insurance
- (h) Rates and taxes, excluding taxes on income
- (i) Miscellaneous expenses

Besides, the following items would also require a separate disclosure:

- Any item of income or expenditure which exceeds one per cent of the revenue from operations or `100,000, whichever is higher

- Net gain/loss on sale of investments
- Adjustments to the carrying amount of investments
- Net gain or loss on foreign currency transaction and translation (other than considered as finance cost)

### ***Prior Period Items***

The revised Schedule VI requires a Company to make a separate disclosure by way of notes of additional information regarding aggregate expenditure and income in respect of prior period items. There is no further guidance given in revised Schedule VI on prior period items. Thus, one needs to take guidance from AS-5 on “Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies”. The following requirements of AS-5 in this regard are worth noting:

- Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.
- Prior period items should be differentiated from change in accounting estimates, eg change in the useful life of fixed assets is a change in an accounting estimate and not a prior period item.
- The nature and amount of prior period items should be separately disclosed in the Statement of Profit and Loss in a manner that their impact on the current profit or loss can be perceived. Normally, prior period items are included in the determination of net profit or loss for the current period; however, these items can alternatively be shown after determination of net profit or loss for the current year.

### ***Exceptional and Extraordinary Items***

The revised Schedule VI requires a company to make a separate disclosure on the face of statement of profit or loss below aggregate expenditure and income. The format as per Schedule VI for disclosing exceptional items and extraordinary item is as below:

|      |                                                           |            |
|------|-----------------------------------------------------------|------------|
| I.   | Profit before exceptional and extraordinary items and tax | xxx        |
| II.  | Exceptional items                                         | xxx        |
| III. | Profit before extraordinary items and tax (I – II)        | xxx        |
| IV.  | Extraordinary Items                                       | xxx        |
| V.   | Profit before tax (III – IV)                              | <u>xxx</u> |

There is no further guidance given in revised Schedule VI on Exceptional and Extraordinary Items. Thus, one needs to take guidance from AS-5 on “Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies”. The following requirements of AS-5 in this regard are worth noting:

- Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and are, therefore, not expected to recur frequently or regularly, eg, profit or loss on sale of shares in subsidiary company, merger-related items, profit arising on disposal of a brand, etc.
- Exceptional items are nothing but items of ordinary activities. The size, nature, or incidence of which is such that their disclosure is relevant to explain the performance of the enterprise for the reporting period, eg
  - (a) write-down of inventories to their net realisable value,
  - (b) reversal of write-down of inventories (ie, writing up of inventories to their cost),
  - (c) restructuring costs,
  - (d) profit or loss from sale of fixed assets,
  - (e) legislative changes having retrospective applications,
  - (f) Profit or loss on sale of Long term Investments etc.

### ***Discontinuing Operations***

The revised Schedule VI requires a company to make a separate disclosure of the following items on the face of Statement of Profit or Loss pertaining to discontinuing operations:

|                                                         |            |
|---------------------------------------------------------|------------|
| Profit/(Loss) from discontinuing operations             | xxx        |
| Tax expense of discontinuing operations                 | xxx        |
| Profit/(Loss) from Discontinuing operations (after tax) | <u>xxx</u> |

### ***Amounts Set Aside for Reserves, Provision for Contingencies, etc***

In relation to amounts set aside for reserves, provision for contingencies, etc, the following information should be disclosed in the notes to the accounts:

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- The aggregate, if material, of any amounts set aside or proposed to be set aside, to reserve, but not including provisions made to meet any specific liability, contingency or commitment known to exist at the date as to which the Balance Sheet is made up.
- The aggregate, if material, of any amounts withdrawn from such reserves.
- The aggregate, if material, of the amounts set aside to provisions made for meeting specific liabilities, contingencies or commitments.
- The aggregate, if material, of the amounts withdrawn from such provisions, as no longer required.

***Imports/Foreign Exchange Income, Expenditure, etc***

The Profit and Loss Account should also contain by way of a note the following information, namely:

- (a) Value of imports calculated on C.I.F. basis by the company during the financial year in respect of:
  - Raw materials
  - Components and spare parts
  - Capital goods
- (b) Expenditure in foreign currency during the financial year on account of royalty, know-how, professional and consultation fees, interest, and other matters.
- (c) Total value if all imported raw materials, spare parts and components consumed during the financial year and the total value of all indigenous raw materials, spare parts and components similarly consumed and the percentage of each to the total consumption.
- (d) The amount remitted during the year in foreign currencies on account of dividends with a specific mention of the total number of non-resident shareholders, the total number of shares held by them on which the dividends were due and the year to which the dividends related.
- (e) Earnings in foreign exchange classified under the following heads—

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- Export of goods calculated on F.O.B. basis
- Royalty, know-how, professional and consultation fees
- Interest and dividend
- Other income, indicating the nature thereof